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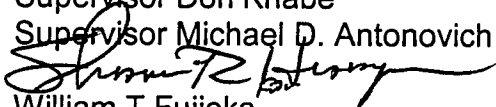
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Fifth District

August 14, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE

This memorandum includes information on the Senate Select Committee on the Los Angeles Health Care Crisis hearing, the State Budget, and the status of County-advocacy legislation.

SENATE SELECT COMMITTEE ON THE LOS ANGELES COUNTY HEALTH CARE CRISIS

The Senate Select Committee on the Los Angeles County Health Care Crisis, chaired by Senator Mark Ridley-Thomas, is scheduled to tour four Los Angeles area hospitals on Friday, August 15, 2008. The Select Committee will visit the emergency rooms and the admitting offices of Brotman Medical Center in Culver City, Kaiser West Los Angeles Medical Center, Memorial Hospital of Gardena, and Harbor-UCLA Medical Center. According to the Senator's office, the purpose of this tour is to gather information about the crisis facing these hospitals, how they have been impacted by the closure of MLK-Harbor Hospital, and what factors affect successful delivery of services to patients at these hospitals. Representatives from the Chief Executive Office and the Department of Health Services will be among those attending. The August 15, 2008 tour date will be rescheduled if the Senate is in session.

"To Enrich Lives Through Effective And Caring Service"

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STATE BUDGET UPDATE

Assembly and Senate Scheduled to Vote on the Budget

Today, Assembly Speaker Karen Bass announced plans for the Assembly to vote this Sunday on a modified version of the Conference Committee Budget that would include compromises agreed to date. On the Senate side, President Pro Tem Don Perata announced that the Senate would probably also hold a vote on Sunday.

Assembly Republicans Introduce Spending Cap Proposal

On August 7, 2008, Republican Assembly Members Villines and Niello introduced Assembly Constitutional Amendment 19 (ACA 19), The Government Overspending Prevention Act, which is intended to avoid future budget shortfalls by placing an expenditure limit on the State and local governments. This measure is scheduled to be heard by the Assembly Budget Committee tomorrow upon adjournment of the Assembly Floor session.

The proposed measure would establish a new State Appropriations Limit formula based on the previous year's expenditures adjusted for population growth and inflation. The Appropriations Limit could not be exceeded for other than an emergency. An emergency is defined as a natural or man-made disaster or an attack on the United States, and it does not include revenue shortfalls or excessive spending as part of the definition. In addition, emergency spending would not be included as spending in the future year's calculation of the limit. The expenditure limits would apply to both the General Fund and Special Funds.

ACA 19 also proposes to place expenditure limitations on local governments (cities, counties and special districts) by requiring that spending not exceed available revenues plus carryover reserves from previous fiscal years.

Potential Impact of ACA 19 on Counties

The overall potential impact of ACA 19 on counties is not known. However, to the extent that State compliance with an expenditure cap leads to reductions in direct funding to counties or to county operated programs, counties could be forced to: a) make corresponding reductions in their local funding or b) increase local funding if State reductions are not accompanied by a corresponding statutory change relieving counties of the requirement to provide services even without sufficient funding. In the later case, counties could be placed in a situation where they would approach the local expenditure cap which limits expenditures to the level of revenues. Similarly, a protracted economic downturn could further damage the State's fiscal health thereby accelerating the

likelihood that a county would have to reduce its budget to remain under the expenditure limit.

A potential further consequence of ACA 19 is its restriction on the use of fees by redefining all local revenues as taxes except for the reasonable cost of services, local regulation, development fees, and fines imposed for the violations of statutes, ordinances or regulations. We will work with California State Association of Counties, Urban Counties Caucus, and other organizations to develop additional information on the impact of ACA 19 on local governments.

Other Components of ACA 19

- State Reserve Fund. ACA 19 would establish a Special Reserve Account to hold funds in excess of the Appropriations Limit with 50 percent of the General Fund portion of the excess funds set aside to be used in case of an emergency, or when revenues are less than the Appropriations Limit in future years. The remaining 50 percent would be used to repay the K-12 schools loans, the Deficit Reduction Bonds, and the transportation loans. Any remaining balance in the account would be used to support a reduction in the State sales tax rate. This rate reduction would be in increments of .25 cents for a 12 month period.
- Special Session for Fiscal Emergencies. ACA 19 adds an additional condition under which the Governor is authorized to call a special session by declaring a fiscal emergency when estimated expenditures are expected to exceed the State Appropriations Limit. As under current law, the Governor would be required to present a plan for resolving the fiscal emergency to the Legislature. Once the special session is convened, the Legislature would have 45 days to pass legislation to resolve the fiscal emergency. If the Legislature fails to meet that deadline, it would not be able to meet to consider other bills nor would it be able to adjourn until the appropriate legislation is passed.
- Failure to Pass a Budget. If the Legislature fails to pass a budget by June 15 of any year, each house of the Legislature would be required to meet in session 24 hours a day until a budget bill is passed. The Legislature would not be allowed to recess or adjourn. This requirement would be in addition to current language that restricts the Legislature from sending an appropriations bill to the Governor prior to passage of the budget bill.
- Future Year Estimates. ACA 19 specifies that whenever the Governor reports on current or budget year revenues and expenditures, he must also report on estimated revenues and expenditures for three additional years. This provision also would apply to the Administration's presentation of the Governor's Budget and May Revision.

- Quarterly Reporting. ACA 19 would require the Governor to report to the Legislature on estimated current year expenditures and revenues and their relation to the current year's appropriation limit on a quarterly basis. It is not clear whether the Administration would be required to provide estimates of the three subsequent years for these reports.
- Definition of Taxes (State). ACA 19 proposes to restrict the use of fees by re-defining all State revenues as taxes except for reasonable charges for specific services and for fines and penalties resulting from a violation of law.
- Definition of Taxes (Local). ACA 19 also would attempt to impose a strict fee definition by classifying all local revenues as taxes except for, the reasonable cost of services, local regulation, and development fees as well as fines imposed for the violation of statutes, ordinances or regulations. General taxes would still require approval of a majority of the voters and special taxes a two-thirds vote. Local taxes imposed after January 1, 2008 but before January 1, 2009 would not be allowed after January 1, 2010 unless the local government complied with the provisions of this initiative.
- Budget Stabilization Account Funding. ACA 19 would reduce a mandatory transfer from the General Fund reserve to the Budget Stabilization Account, which was established by The California Balanced Budget Act of 2004 (Proposition 58), from 3 percent to 1.5 percent. Under existing law, 50 percent of the transferred amounts are used to accelerate retirement of the Deficit Reduction Bonds, and the remainder is reserved for future economic uncertainties.

Under ACA 19, all of the funds transferred to the Budget Stabilization Account would be used for debt retirement since the measure creates a separate reserve for future economic emergencies. Funds transferred to the Budget Stabilization Account after the retirement of the Deficit Reduction Bonds could be transferred back to the General Fund. In addition, ACA 19 would reduce the maximum amount that could be placed in the Budget Stabilization Account from \$8 billion (or 5 percent of General Fund revenues) to \$5 billion.

- Mandate Changes. ACA 19 makes changes to the mandate provisions of the Constitution. Generally, it would require the State either to fund current mandates or suspend them. The proposed measure would allow local governments to seek injunctive relief if the State fails to appropriate funds to pay for mandates. It also would allow taxpayers to seek relief from the courts against the State for mandates.

Each Supervisor
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STATUS OF COUNTY ADVOCACY LEGISLATION

County-opposed AB 2754 (Bass), as amended on May 23, 2008, which would create a presumption of workplace causation for peace officers and firefighters who contract the methicillin-resistant staphylococcus aureus virus, passed the Senate Floor by a vote of 30 to 9 on August 13, 2008 and it now proceeds to the Governor's desk.

We will continue to keep you advised.

WTF:GK:ML
MR:IGA:hg

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations